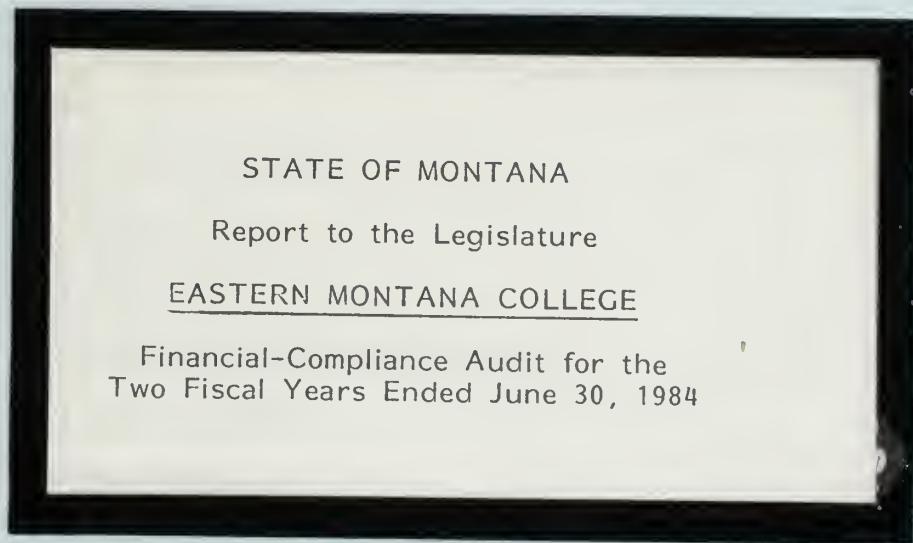


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STATE OF MONTANA

Report to the Legislature

EASTERN MONTANA COLLEGE

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1984



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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

MONTANA BOARD OF REGENTS

		<u>Term Expires</u>
Ted Schwinden, Governor*		
Ed Argenbright, Superintendent of Public Instruction*		
Jeff Morrison, Chairman	Helena	1987
Burt Hurwitz	White Sulphur Springs	1986
Dennis Lind	Missoula	1989
Beatrice McCarthy	Anaconda	1990
Elsie Redlin	Sydney	1991
John Scully	Bozeman	1992
David Paoli, Student Regent	Missoula	1986

*Ex officio members

OFFICE OF THE COMMISSIONER OF HIGHER EDUCATION

Dr. Irving E. Dayton	Commissioner of Higher Education
John Noble, CPA	Deputy Commissioner for Financial Affairs

ADMINISTRATIVE OFFICERS

Dr. Bruce H. Carpenter	President
Dr. Samuel H. Rankin, Jr.	Academic Vice President
Kenneth W. Heikes, CPA	Administrative Vice President
Donald E. Fox, CPA	Controller

LOCAL EXECUTIVE BOARD

V. Eugene Cetrone	Billings
Nick R. Cladis	Billings
Vic Miller	Billings

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

	<u>Page</u>
<u>Recommendation #1</u>	
We recommend EMC comply with the budget amendment process and Board of Regents' policy by obtaining Board of Regents' approval prior to transferring spending authority.	3
EMC Response: Concur. See page 46.	
CHE Response: Partially concur. See page 53.	
<u>Recommendation #2</u>	
A. We recommend the college comply with the appropriation bill language concerning allocation of audit costs.	4
EMC Response: Do not concur. See page 46.	
B. We recommend the college consider requesting language in the appropriation bill which allows proper allocation of audit costs.	4
EMC Response: Concur. See page 46.	
<u>Recommendation #3</u>	
A. We recommend EMC use nontreasury bank accounts only for purposes allowed by state law and policy.	7
EMC Response: Concur. See page 47.	
B. We recommend EMC maintain nontreasury cash accounts at the authorized amount.	7
EMC Response: Partially concur. See page 47.	
C. We recommend EMC record retired employees' insurance moneys in the agency fund.	7
EMC Response: Concur. See page 47.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
D. We recommend EMC discuss possible policy revisions with the Department of Administration regarding nontreasury bank accounts.	7

EMC Response: Concur. See page 47.

Recommendation #4

We recommend EMC obtain authorization from the Property and Supply Bureau for all future asset disposals.

8

EMC Response: Concur. See page 47.

Recommendation #5

We recommend EMC take action to terminate ASEMC employees' participation in PERS.

8

EMC Response: Do not concur. See page 48.

Recommendation #6

We recommend the Board of Regents authorize compensation rates only as allowed by state law.

9

EMC Response: Concur. See page 48.

CHE Response: Concur. See page 53.

Recommendation #7

A. We recommend EMC strengthen internal controls over purchasing and expenditures.

12

EMC Response: Concur. See page 48.

B. We recommend EMC ensure personnel establish and follow control procedures.

12

EMC Response: Concur. See page 49.

C. We recommend EMC submit additional warrant documentation to Helena for direct mailing to vendors.

12

EMC Response: Concur. See page 49.

SUMMARY OF RECOMMENDATIONS (Continued)

<u>Recommendation #</u>	<u>Page</u>
We recommend EMC implement controls to ensure the physical plant inventory can be properly valued.	14
EMC Response: Concur. See page 49.	
<u>Recommendation #9</u>	
A. We recommend EMC ensure physical counts are properly performed.	14
EMC Response. Concur. See page 49.	
B. We recommend EMC properly reconcile the physical count and the inventory listing.	14
EMC Response. Concur. See page 49.	
<u>Recommendation #10</u>	
We recommend EMC implement adequate controls to ensure an accurate inventory cutoff at June 30.	15
EMC Response: Concur. See page 49.	
<u>Recommendation #11</u>	
We recommend EMC record inventory on its accounting records in the proper subfund.	16
EMC Response: Concur. See page 50.	
<u>Recommendation #12</u>	
A. We recommend EMC establish adequate segregation of duties in the cash receipt process.	17
EMC Response: Concur. See page 50.	
B. We recommend EMC restrictively endorse all checks immediately upon receipt.	17
EMC Response: Concur. See page 50.	

SUMMARY OF RECOMMENDATIONS (Continued)

<u>Recommendation #</u>		<u>Page</u>
<u>Recommendation #13</u>	We recommend EMC work with the student newspaper to establish a system of controls over advertising sales and collections.	18
	EMC Response: Partially concur. See page 50.	
<u>Recommendation #14</u>	We recommend EMC continue developing a system to adequately record all receivables.	18
	EMC Response: Concur. See page 50.	
<u>Recommendation #15</u>		
A.	We recommend EMC perform periodic physical counts of fixed assets.	19
	EMC Response: Concur. See page 51.	
B.	We recommend EMC tag property items.	19
	EMC Response: Concur. See page 51.	
C.	We recommend EMC record installment purchases at correct cost.	19
	EMC Response: Concur. See page 51.	
<u>Recommendation #16</u>		
	We recommend EMC file amended FISAP and PELL reports for fiscal years 1982-83 and 1983-84.	20
	EMC Response: Concur. See page 51.	
<u>Recommendation #17</u>		
A.	We recommend EMC accurately calculate PELL refunds.	21
	EMC Response: Concur. See page 52.	
B.	We recommend EMC require properly completed time sheets.	21
	EMC Response: Concur. See page 52.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
C. We recommend EMC properly validate all students prior to awarding student aid.	21
EMC Response: Concur. See page 52.	

D. We recommend EMC correctly calculate the cost of education.	21
EMC Response: Concur. See page 52.	

Recommendation #18

We recommend EMC ensure adequate documentation is made to verify compliance with grantor reporting requirements.	22
EMC Response: Concur. See page 52.	

GENERAL

We performed a financial-compliance audit of Eastern Montana College (EMC) for the two fiscal years ending June 30, 1983 and June 30, 1984. The objectives of our audit were to: 1) determine if the financial statements of the college present fairly its financial position and results of its operations for the two fiscal years ended June 30, 1983 and June 30, 1984; 2) determine if the college complied with state and federal laws and regulations which could have a material effect on the college's financial statements; 3) make recommendations for the improvement of management and internal controls; and 4) determine whether prior audit recommendations have been effectively implemented.

Included was an audit of the college's contracts and grants and financial aid programs for the two fiscal years ended June 30, 1984. The college participates in the following federally funded financial aid programs: the National Direct Student Loan (NDSL) Program, the College Work-Study (CWS) Program, the Supplemental Educational Opportunity Grant (SEOG) Program, and the Pell Grant Program. The college also receives student financial aid funds from State Student Incentive Grants and other private sources. Our audit of these federal student aid and contract and grant programs was performed in accordance with the financial and compliance elements of the "Standards for Audit of Governmental Organizations, Programs, Activities, and Functions," 1981, and the audit guide prescribed by the U.S. Department of Education, March 1984.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the Eastern Montana College staff for their cooperation and assistance during our audit.

BACKGROUND

Eastern Montana College was established in Billings by the 1927 Legislative Assembly. It was initially called Eastern Montana Normal School at Billings. Its name was changed in 1949 to Eastern Montana College of Education, and in 1965 to Eastern Montana College. The college offers academic programs in education, liberal arts, sciences, business, economics, undergraduate and graduate teacher education, and professional and vocational education. Eastern has been given authority to grant a Bachelor of Science degree in Education, a baccalaureate degree in secondary education, and a Master's Degree in elementary education. In addition, the college is authorized to confer liberal arts degrees of Bachelor of Arts and Bachelor of Science. In 1968, authority was given to grant a Master of Science in rehabilitation counseling. The college also has authority to award degrees of the Associate of Arts and Associate of Science.

The college is under the control and supervision of the seven-member Board of Regents of Higher Education.

The campus is comprised of approximately 90 acres of land containing nineteen buildings providing administrative offices, classrooms, laboratories, auditoriums, physical education facilities, student housing, and other facilities.

The state General Fund and the University Millage are the primary sources of revenue to operate the college. Revenue is also generated from student fees; land grant income; federal, state, and private grants; and auxiliary enterprise operations.

PRIOR AUDIT RECOMMENDATIONS

The fiscal years 1980-81 and 1981-82 audit of Eastern Montana College was performed by a public accounting firm under contract with our office. The audit report contained nine recommendations still applicable to the college. The college implemented six and did not implement three.

Recommendations not implemented deal with travel advances (page 6), cash receipts and revenue (page 16), and accounts receivable (page 18).

STATE COMPLIANCE

We have examined the financial statements of Eastern Montana College (EMC) for the fiscal years ended June 30, 1983 and 1984, and have issued our report thereon dated January 24, 1985. Our examination was made in accordance with generally accepted government auditing standards and, accordingly, included such tests of accounting records and such other auditing procedures as we considered necessary in the circumstances.

Except for the instances of noncompliance described in this report, Eastern Montana College complied with the terms and provisions of laws and regulations that could have a material effect on EMC's financial statements for the transactions tested. Nothing came to our attention in connection with our examination that caused us to believe that EMC was not in compliance with the terms and provisions of laws and regulations for those items not tested.

Appropriations

Overspent Line-Item Appropriation

House Bill 447, Laws of 1983 established EMC's fiscal year 1984 appropriations by line item, with the provision that the Board of Regents may approve program transfers up to 5 percent.

At fiscal year-end 1984, EMC transferred \$22,500 of expenditures from the operation and maintenance of plant appropriation to the institutional support appropriation to eliminate the negative appropriation balance in the plant appropriation. EMC bypassed the budget amendment process and violated Board of Regents' policy by failing to obtain Board of Regents' approval prior to the transfer of spending authority between programs.

RECOMMENDATION #1

WE RECOMMEND EMC COMPLY WITH THE BUDGET AMENDMENT PROCESS AND BOARD OF REGENTS' POLICY BY OBTAINING BOARD OF REGENTS' APPROVAL PRIOR TO TRANSFERRING SPENDING AUTHORITY.

Audit Appropriations

The Montana Legislature establishes appropriations in the Current Operating Fund at each unit in the university system. House Bill 500, Laws of 1981 and House Bill 447, Laws of 1983 establish the audit appropriations used by EMC during our audit period. Language in these House Bills states these appropriations are to cover 75 percent of the cost for the audit of the university unit. University units are directed to pay the additional 25 percent of audit costs from funds not appropriated by the Legislature.

In fiscal year 1983, EMC paid 100 percent of its audit costs out of the audit appropriation in the Current Operating Fund. In fiscal year 1984, EMC paid 75 percent of total audit costs out of the audit appropriation and 25 percent of total audit costs out of other appropriations in its Current Operating Fund. In both years, EMC failed to comply with the legislative language governing the limited use of the Current Operating Fund involving audit costs. As a result, EMC spent moneys in excess of the amount appropriated by the Legislature by \$5,666.25 in fiscal year 1983 and \$10,253.75 in fiscal year 1984.

If the language in the appropriation bill does not give the college the ability to reasonably allocate audit costs, the college should request language in the appropriation bill to allow it to properly allocate audit costs.

RECOMMENDATION #2

WE RECOMMEND THE COLLEGE:

- A. COMPLY WITH THE APPROPRIATION BILL LANGUAGE CONCERNING ALLOCATION OF AUDIT COSTS.
- B. CONSIDER REQUESTING LANGUAGE IN THE APPROPRIATION BILL WHICH ALLOWS PROPER ALLOCATION OF AUDIT COSTS.

Outside Bank Accounts

We noted numerous instances where EMC is not complying with state laws governing moneys held in checking accounts outside the state treasury. EMC had three separate bank accounts during our audit period. These accounts are referred to as the: 1) clearing account, 2) regular account, and 3) payroll account.

Clearing Bank Account

Section 17-2-201, MCA, mandates that the Department of Administration authorize all cash held outside the state treasury. EMC did not have approval from the Department of Administration for its clearing bank account.

EMC deposits all daily receipts into this unauthorized account. The following day a check is written and deposited in the state treasury for all collections except registration money. EMC holds registration money out of the state treasury until the final distribution of cash to various departments is known. Because EMC deposited collections in its clearing account and didn't deposit the collections to the treasury bank account until the following day it violated state law which requires daily deposits. Section 17-6-105, MCA, designates the state treasurer as the treasurer for all agencies and mandates daily deposits with the state treasurer when collections of cash are greater than \$100 or checks and cash are greater than \$500.

The moneys held in the clearing account earned 5½ percent annual interest. Cash deposited and held in the state treasury is invested in STIP, which earned 10.27 percent and 10.45 percent in fiscal years 1983 and 1984, respectively. The State of Montana lost interest income of approximately \$19,000 over the two-year audit period due to this failure to comply with state law. In response to a preliminary audit communication, EMC closed its clearing bank account in November 1984. We recommend no further corrective action.

Regular and Payroll Bank Accounts

Section 17-2-210, MCA, states the Department of Administration will provide specific regulations as to the type of immediate cash payment which may be paid out of accounts held outside the state treasury. These specifications are detailed in MOM 2-1950. We noted the following examples in which EMC did not comply with state policy:

Regular Account

1. Cash Change Funds - When EMC needs extra cash-on-hand for registration or payday, a check is cashed from the regular account to meet the demand for cash. When the excess cash-on-hand is no longer desired, it is redeposited into the regular account. In June 1983, a review of the regular account deposits shows Cash Change Fund repayments of \$60,000. These are not allowable receipts or disbursements from the account per MOM 2-1950. Also, EMC did not obtain the Department of Administration approval required by section 17-2-201, MCA, for increasing the amount of cash kept in accounts outside the state treasury for both the regular account and Cash Change Funds.
2. Travel Advances - EMC pays all travel advances out of the regular account. MOM 2-1950 specifies only emergency travel should be paid for out of this type of account. At 6-30-84, outstanding travel advances to EMC employees from the regular account totaled \$10,325.

Payroll Account

1. Retired employees insurance premiums - EMC has a group insurance plan for retired employees. The retired employees send checks for premiums directly to the payroll department. A payroll clerk records the check on a manual record kept by name and month. The check is then deposited into the payroll account. This is not an allowable receipt per MOM 2-1950.

Each month EMC writes a check from the payroll account to pay the insurance premium due. This is not an allowable disbursement per MOM 2-1950.

Because insurance premiums from retired employees are not state moneys, it would be more appropriate to record receipt of these moneys in an Agency Fund to reflect the custodial nature of the premiums. This would correct the problems noted in the two preceding paragraphs.

2. Payroll - MOM 2-1950 allows a disbursement from a nontreasury bank account for payroll for emergency use only. We noted EMC did not document emergency needs for payroll disbursed out of this nontreasury bank account.

EMC officials indicated the Department of Administration restrictions noted above are too limited or impractical for effective daily operations. EMC should request that the Department of Administration review and discuss possible policy revisions regarding nontreasury bank accounts.

RECOMMENDATION #3

WE RECOMMEND EMC:

- A. USE NONTREASURY BANK ACCOUNTS ONLY FOR PURPOSES ALLOWED BY STATE LAW AND POLICY.
- B. MAINTAIN NONTREASURY CASH ACCOUNTS AT THE AUTHORIZED AMOUNT.
- C. RECORD RETIRED EMPLOYEES' INSURANCE MONEYS IN THE AGENCY FUND.
- D. DISCUSS POSSIBLE POLICY REVISIONS WITH THE DEPARTMENT OF ADMINISTRATION REGARDING NONTREASURY BANK ACCOUNTS.

Other State Compliance Issues

Surplus Property

Section 18-6-101, MCA, grants "the Department of Administration the exclusive power to sell, dispose, or otherwise authorize the disposal of materials and supplies, service equipment, or other personal property of every kind owned by the State of Montana, . . ." The Property and Supply Bureau of the Department of Administration fulfills this role.

During our audit period, EMC did not utilize the Property and Supply Bureau to dispose of any of its surplus property. Certain agency personnel stated they were unaware of the state law requiring this. As a result, items have been traded in for

new equipment and departments have sold state property on campus or through a local auction company, all without proper prior approval from the Property and Supply Bureau.

RECOMMENDATION #4

WE RECOMMEND EMC OBTAIN AUTHORIZATION FROM THE PROPERTY AND SUPPLY BUREAU FOR ALL FUTURE ASSET DISPOSALS.

ASEMC Employees

The Associated Students of Eastern Montana College (ASEMC) contributed \$1,531 for employees who were participating in the Public Employees' Retirement System (PERS) during fiscal year 1984. State law limits eligibility in PERS participation to employees of the state, its political subdivisions, or other governmental entities. ASEM is a private student organization. It does not qualify as a state agency, political subdivision, or other governmental entity. Therefore, in accordance with state law, ASEM's employees are not eligible to participate in PERS.

RECOMMENDATION #5

WE RECOMMEND EMC TAKE ACTION TO TERMINATE ASEM'S EMPLOYEES' PARTICIPATION IN PERS.

Board Member Compensation

Section 20-25-303(5), MCA, states the compensation for local executive board members shall be fixed by the regents, not to exceed \$5 per day or \$125 per year. However, per the Montana University System policy and procedures manual, the amount paid is \$25 per day. The \$25 rate is based on section 2-15-122, MCA, which applies to advisory councils. Because section 20-25-303(5), MCA, specifically addresses the local executive board, the rates in this law should be the controlling rates. The higher rate contained in section 2-15-122, MCA, is not applicable for the local executive board.

RECOMMENDATION #6

WE RECOMMEND THE BOARD OF REGENTS AUTHORIZE COMPENSATION RATES ONLY AS ALLOWED BY STATE LAW.

INTERNAL CONTROL

We have examined the financial statements of Eastern Montana College for the two fiscal years ended June 30, 1984. We issued our opinion dated January 24, 1985 on these statements. In addition, we examined the federal student aid reports submitted to the U.S. Department of Education for each of the two fiscal years ended June 30, 1984. As part of our examination, we made a study and evaluation of the systems of control for the college. Our study evaluated the systems as required by generally accepted government auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue;
2. payroll;
3. expenditures and payables;
4. cash;
5. accounts receivable;
6. property, plant, and equipment;
7. inventories;
8. contract and grants; and
9. student financial aid.

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our audit procedures. We did not evaluate controls over inventory, cash, and accounts receivable because the audit could be performed more efficiently by expanding substantive audit work. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of Eastern Montana College is responsible for establishing and maintaining systems of accounting control. In fulfilling this responsibility, estimates and judgments by

management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluations should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study and evaluation described in the first paragraph would not necessarily disclose all material weaknesses in the systems. Accordingly, we do not express an opinion on the systems of controls used by Eastern Montana College. However, our study and evaluation disclosed conditions that could result in financial statement errors that would be difficult to detect. These conditions related to the following areas are discussed in this report: cash receipts on page 16; inventory on page 13; expenditures on page 10; property, plant, and equipment on page 18; and accounts receivable on page 18.

These conditions were considered in determining the nature, timing, and extent of our audit tests of the financial statements and financial aid reports and this report does not affect our opinion on the financial statements or financial aid reports.

The preceding five paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

Expenditures

We noted several ways EMC can significantly increase control over its expenditures as described below. The controls tested

were those outlined in EMC's purchasing manual and described by EMC personnel.

1. Initiating purchases - EMC's purchasing policy required the purchasing agent's approval for all purchases by EMC departments under \$200. In four out of eleven purchases tested, EMC could provide no documentation of this approval. EMC officials later indicated this was not a formal control. EMC should update their written policies to reflect its current control system.
2. Receipt of goods - EMC has a central receiving area for incoming purchases. However, deliveries are accepted by the departments, the business office, or the purchasing division. EMC could improve controls by utilizing their designated receiving point.
3. Duplicate payments - During our audit tests, we noted several instances of returned checks or credit memos being issued to EMC from vendors who had been paid twice.

One example of this was a duplicate payment made by EMC on computer equipment. EMC made a partial payment of \$3,357 on an original invoice that had no department signature authorizing payment. Attached to this was a photocopy of the purchase requisition detailing the entire order. Two weeks later, the EMC business office paid the full amount of the order of \$10,071 on a duplicate invoice signed by the department. The original purchase requisition was attached to the second payment. Nothing had been written on the original requisition concerning the first payment. The vendor then sent EMC a credit memo for the \$3,357 duplicate payment.

We could not determine the total dollar effect of duplicate payments. In some cases, EMC records credit memos received as prepaid expenses. In other instances, the vendor returns the duplicate check which EMC then cancels. We reviewed EMC's warrant cancellations for both fiscal years. In fiscal year 1983 EMC cancelled warrants totalling \$1,225 because of duplicate payments. In fiscal year 1984, this figure was \$3,658. We determined that in thirty-two instances, the duplicate payment was caught by the vendor.

4. During our expenditure testing, we also noted several instances where vendors are writing to EMC indicating payments are late, or asking EMC to check its records to ensure billing is correct and if any payment had been made.

The control weaknesses noted over purchase approval, receipt of goods, duplicate payments or failure to pay valid claims constitute a significant weakness in purchasing/expenditure control. These problems result partially from failing to follow established procedures. However, these problems also indicate a lack of coordination and communication among the various parties in the expenditure processing system. EMC officials should reevaluate established procedures and make changes to correct the problems we noted. EMC officials should then ensure that established procedures are followed.

We also noted EMC requests some state warrants to be returned to EMC instead of being mailed directly to the vendor from Helena. EMC does this whenever support documents need to be attached to the warrant. Because of other weaknesses noted, this is an additional concern as agency people who prepare the warrant request receive the warrant, thus weakening controls that ensure only valid claims are paid. EMC could eliminate this problem by submitting the additional documentation to Helena and requesting the documentation be included in the warrant envelope. Direct mailing would also reduce the time delay between warrant preparation and the vendor receiving payment.

RECOMMENDATION #7

WE RECOMMEND EMC:

- A. STRENGTHEN INTERNAL CONTROLS OVER PURCHASING AND EXPENDITURES.
- B. ENSURE PERSONNEL ESTABLISH AND FOLLOW CONTROL PROCEDURES.
- C. SUBMIT ADDITIONAL WARRANT DOCUMENTATION TO HELENA FOR DIRECT MAILING TO VENDORS.

Inventory

Eastern Montana College reported the following inventories in the Current Unrestricted Fund as of June 30, 1984:

<u>Inventory</u>	
Bookstore	\$351,071
Physical Plant	258,335
Stores	76,030
Total	<u>\$685,436</u>

We noted items with no cost support, incorrect physical counts, inadequate cutoff adjustments, and improper subfund classification of the physical plant inventory as discussed below. EMC officials acknowledged improvements are needed to properly account for the physical plant inventory. Officials stated one person will be required initially to modify and update the inventory computer programming. It would require approximately one-fourth to one-half additional full-time equivalent (FTE) to monitor and maintain the physical plant inventory system.

Cost Support

The physical plant inventory listing does not list a vendor, invoice number, or date of purchase for each item. Because of this, we could not trace from the inventory list to an invoice verifying an item's cost. As an alternative test, we attempted to trace a sample of invoices to the inventory listing. We noted six exceptions out of eleven invoices tested where the price on the invoice did not agree to the price on the inventory listing. Our testing showed the cost of the sample was overstated by 19.8 percent.

EMC physical plant officials stated they were unaware of the need to trace cost support of the inventory. We discussed the discrepancies of the prices on the invoices versus the prices on the inventory listing. The officials stated the differences could be that the inventory price was generated from an invoice other than the ones we had examined, but they could not provide us with evidence of invoice support for the prices listed on the inventory.

RECOMMENDATION #8

WE RECOMMEND EMC IMPLEMENT CONTROLS TO ENSURE THE PHYSICAL PLANT INVENTORY CAN BE PROPERLY VALUED.

Physical Counts and Adjustments

During our observation of the physical plant inventory count, we performed sample test counts to ensure the correct counts were being recorded. Out of 26 items tested, we noted 6 instances where the EMC counts were in error.

When we reviewed the final inventory listing, we noted five items had not been adjusted to the correct count number. EMC physical plant officials told us the final inventory listing was compiled from the inventory cards. The inventory count sheets, on which the counters had made count adjustments, had not been reconciled to the inventory cards. As a result, any changes made on the count sheets but not the inventory cards were not reflected in the final inventory list.

RECOMMENDATION #9

WE RECOMMEND EMC:

- A. ENSURE PHYSICAL COUNTS ARE PROPERLY PERFORMED.
- B. PROPERLY RECONCILE THE PHYSICAL COUNT AND THE INVENTORY LISTING.

Cutoff

The inventory cards are completed for items as received. However, no date of receipt is marked on invoices or purchase orders. As a result, we could not verify that inventory received June 28-30 is properly included in the final inventory listing.

All items removed during the inventory count were recorded on an "out sheet." EMC destroyed the "out sheets" so we were unable to verify if the inventory cards were adjusted for items

removed after the physical count but before fiscal year-end. We observed that two of the inventory errors noted above were the result of items being removed.

RECOMMENDATION #10

WE RECOMMEND EMC IMPLEMENT ADEQUATE CONTROLS TO ENSURE AN ACCURATE INVENTORY CUTOFF AT JUNE 30.

Inventory Classification

Eastern Montana College's accounting records include three subfunds within the Current Unrestricted Fund: current operating, designated, and auxiliary. EMC established and recorded the physical plant inventory in the current operating subfund. However, the majority of inventory purchases are paid out of the designated subfund. Inventories should be accounted for separately within the subfund which incurs the expenditures to acquire the asset or recorded as transfers to subfund in which they are reported.

EMC improperly established the inventory on the accounting records at fiscal year-end 1983 by debiting inventory and crediting fund balance. The inventory balance on the accounting records at fiscal year-end 1984 was adjusted to match the physical count in the same manner. State policy requires an adjustment of expenditures for the change in inventory and a prior period adjustment for the initial recording of inventories not previously recorded on the accounting records. As a result, prior period adjustments and expenditures in the Current Unrestricted Fund are misstated by an undeterminable amount in each fiscal year.

The physical plant inventory listing prints only a unit cost and quantity by line item. The price extension of cost times quantity is done internally and a final total is listed on the last page. As a result, it was impractical for us to verify the mathematical accuracy of extensions or determine the dollar value breakdown between subfunds.

RECOMMENDATION #11

WE RECOMMEND EMC RECORD INVENTORY ON ITS ACCOUNTING RECORDS IN THE PROPER SUBFUND.

Cash Receipts

Eastern Montana College has various cash collection points on campus. We reviewed controls over cash collections at the Montana Center for Handicapped Children, resident living, campus security, athletic office, KEMC radio station, purchasing division, financial aid office, and the business office.

We noted instances where EMC could improve the cash collection process at these locations as described below.

Segregation of Duties

There is little or no segregation of duties for cash collections in most of the departments. One employee usually performs the following incompatible functions: receive cash; balance cash with receipts; and deposit cash. By combining these functions with one individual, the college increases the risk that errors or omissions will occur without detection.

Restrictive Endorsement

Checks are not always immediately restrictively endorsed or logged in when received in the mail. The receptionist in the business office who opens the mail sorts the checks for distribution. For example, the checks for retired employees' insurance premiums received by mail are given to the payroll office. These checks are kept in a desk drawer. Approximately once a week, the payroll department deposits these checks with the cashier in the business office. The checks are restrictively endorsed when received by the cashier.

Lack of immediate restrictive endorsement increases the possibility of loss or theft of a check prior to deposit in the state treasury. Checks received in the mail should be immediately restrictively endorsed and deposited. Copies of receipts issued

for these checks could be distributed to fund accountants and the payroll department for proper coding.

RECOMMENDATION #12

WE RECOMMEND EMC:

- A. ESTABLISH ADEQUATE SEGREGATION OF DUTIES IN THE CASH RECEIPT PROCESS.
- B. RESTRICTIVELY ENDORSE ALL CHECKS IMMEDIATELY UPON RECEIPT.

Student Newspaper

EMC officials requested we audit the Retort, the EMC student newspaper, concerning its advertising income accounting. We determined the Retort records were unauditible. Factors in this decision include the following:

1. There was no complete file of contracts to support advertising sales. Contracts are not prenumbered or recorded when signed. Consequently, we could not determine the amount of income the Retort should have collected.
2. The majority of advertising contracts cannot be traced to billing invoices or subsequent payments. Contracts and billing invoices are seldom reconciled, and payments are made based on billing invoices.
3. No accounts receivable are established when billing invoices are prepared. An accounts receivable ledger would provide EMC the listing required to monitor who has paid their bill and who has not paid.

In May 1984 the business office had \$3,155 of Retort billing documents that were not recorded as receivables. We also noted duplicate invoices as a new invoice number is assigned each billing even if it is a second billing.

4. We found letters from advertisers requesting billings, which raises questions of whether all contracts have been billed.

EMC can achieve adequate control over advertising sales and collections by establishing an accounts receivable and billing

system for all sales and monitoring that system to ensure all amounts owed EMC are collected.

RECOMMENDATION #13

WE RECOMMEND EMC WORK WITH THE STUDENT NEWSPAPER TO ESTABLISH A SYSTEM OF CONTROLS OVER ADVERTISING SALES AND COLLECTIONS.

Accounts Receivable

We noted several situations where EMC has receivables which are not recorded on its accounting records.

1. Professors' Charges - EMC bookstore allows professors to charge books and supplies. As of June 1983 and April 1984, the unrecorded receivable amounts were \$2,392 and \$2,565, respectively.
2. Vocational Rehabilitation - The EMC bookstore distributes books to students and is paid by the grantor. EMC did not establish a receivable for money due at June 30, 1983 or 1984 which totaled \$9,176 and \$8,582, respectively.
3. Summer Quarter Deferred Fees - EMC does not record the receivable for students who attend summer school until the final distribution of registration money is made. In 1984, the receivable of \$62,199 for summer school was not recorded until September.

EMC officials stated they are in the final stages of establishing a computerized system to record all campus receivables.

RECOMMENDATION #14

WE RECOMMEND EMC CONTINUE DEVELOPING A SYSTEM TO ADEQUATELY RECORD ALL RECEIVABLES.

Property, Plant, and Equipment

We noted several instances where EMC could improve controls over property, plant, and equipment. These are:

1. Physical Count - EMC attempted to perform a physical count of fixed assets in September 1983. As of December 1984, seven departments still had not returned count sheets. The benefit of the physical count is lost if the count sheets are not returned. State policy requires a periodic physical count of assets be performed to ensure existence and provide verification for recorded amounts.
2. Property Tags - We noted six items with no property tags. These items include a \$439 desk, four \$892 typewriters, and a \$2,047 temperature recorder.
We also found one item with an incorrect tag on it. MOM 2-1700.30 states each item shall be assigned a property number and have the tag number attached. This helps to ensure adequate physical control of assets.
3. Installment Purchases - We noted three instances where installment purchases for equipment were incorrectly valued on the fixed assets records. This was due to miscalculations by EMC personnel. Equipment was overstated by \$1,558 as a result of these errors.

RECOMMENDATION #15

WE RECOMMEND EMC:

- A. PERFORM PERIODIC PHYSICAL COUNTS OF FIXED ASSETS.
- B. TAG PROPERTY ITEMS.
- C. RECORD INSTALLMENT PURCHASES AT CORRECT COST.

FEDERAL GRANTS

Introduction

Eastern Montana College received grants from the federal agencies indicated on the Schedule of Federal Grant Expenditures on pages 38 through 41. Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget (OMB) Circulars A-21 and A-110 and the March 1984 student aid audit guide prescribed by the U.S. Department of Education.

We reviewed a representative sample of the grants on the Schedule of Federal Grant Expenditures to determine whether EMC's grant control system ensures that reported costs were allowable and reasonable, whether grant terms were complied with, whether grant reports were accurate, and whether the students were eligible to receive student aid.

Based on our examination, we found that for the items tested the university generally complied with the material terms and conditions of the federal award agreements, except as noted in the following sections. Nothing came to our attention that causes us to believe untested compliance items are not in accordance with applicable laws and regulations.

Incorrect Financial Aid Reports

Our audit of the student financial aid programs at EMC revealed errors in dollar amounts and statistical data reported on the final FISAP and Pell reports submitted to the federal government. These errors are detailed in Appendix A. EMC should correct these errors by filing amended financial aid reports.

RECOMMENDATION #16

WE RECOMMEND EMC FILE AMENDED FISAP AND PELL REPORTS FOR FISCAL YEARS 1982-83 AND 1983-84.

Federal Regulations

We noted the following exceptions at EMC concerning compliance with federal regulations during our student aid audit work:

1. Refunds

In our sample testing, we found two instances out of ten tested where students who had received a Pell award dropped a sufficient number of credits within the first 15 days to no longer be classified as a full-time student. When the students received a refund, no allowance was made for the difference in Pell awards for a full-time student and a three-quarters or half-time student. Federal regulations require that if a refund is due a student under the institution's

refund policy and the student received financial aid under Title IV other than College Work-Study, a portion of the refund shall be returned to the Title IV programs. The college should have collected \$185 from these students.

2. College Work-Study

We found one student's time sheet was not broken down into what hours of the day the student worked as required by federal regulation. Accordingly, we could not determine if class schedules and work hours were in conflict.

3. Validation

CFR 690.77 requires that if a student does not provide requested documentation within an established time period, the student will forfeit the Pell grant for the award year. Out of a sample of ten students, we found one student who received student aid without being properly validated by the college. The college disbursed the aid based on an unsigned tax return. Subsequently, a signed tax return was received.

4. Cost of Education

For one student, the cost of education used implied that he had no further financial need. If the correct cost of education had been used, he would have had a financial need of \$4,926. However, the student did receive the maximum amount of aid requested.

RECOMMENDATION #17

WE RECOMMEND EMC:

- A. ACCURATELY CALCULATE PELL REFUNDS.
- B. REQUIRE PROPERLY COMPLETED TIME SHEETS.
- C. PROPERLY VALIDATE ALL STUDENTS PRIOR TO AWARDING STUDENT AID.
- D. CORRECTLY CALCULATE THE COST OF EDUCATION.

Performance Report

The Volunteers For Families in Stress grant to EMC required the submission of a performance report at the end of the grant. EMC could not provide evidence that the performance report was submitted as required by the grantor.

RECOMMENDATION #18

WE RECOMMEND EMC ENSURE ADEQUATE DOCUMENTATION IS MADE TO VERIFY COMPLIANCE WITH GRANTOR REPORTING REQUIREMENTS.

AUDITOR'S REPORT AND AGENCY FINANCIAL STATEMENTS

SUMMARY OF AUDIT OPINION

The auditor's opinion issued in this report (page 23) is intended to convey to the reader of the financial statements the degree of reliance that can be placed on the amounts presented. We issued an unqualified opinion on the financial statements. An unqualified opinion means the reader may rely on the fairness of the amounts presented in the financial statements when analyzing the college's operations.

Office of the Legislative Auditor



ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

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HELENA, MONTANA 59620
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The Legislative Audit Committee
of the Montana State Legislature:

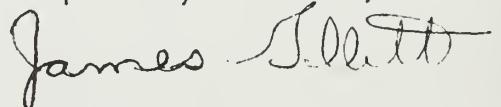
We have examined the financial statements of Eastern Montana College as of June 30, 1984 and for each of the two fiscal years then ended as shown on pages 25 to 37. Our examination was made in accordance with generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities, and Functions for financial and compliance audits and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to in the first paragraph, present fairly the financial position of Eastern Montana College at June 30, 1984, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the two fiscal years then ended in conformity with generally accepted accounting principles which, except for the change, with which we concur, in the method of reporting compensated absences as described in Note 7 to the financial statements, have been applied on a consistent basis.

The accompanying Schedule of Federal Grant Receipts and Expenditures, and Schedules of Student Full-Time Equivalents are presented for additional analysis and disclosure purposes in compliance with "Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals,

and Other Nonprofit Organizations" and the Department of Education, Student Aid Guide, March 1984, and are not a required part of the combined financial statements for Eastern Montana College. These schedules have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

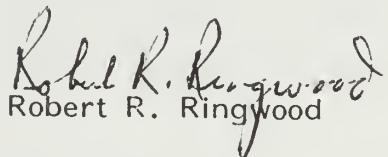
Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

January 24, 1985

Approved:


Robert R. Ringwood

EASTERN MONTANA COLLEGE
BALANCE SHEET
JUNE 30, 1984

ASSETS

CURRENT FUNDS:

Unrestricted:

Cash	\$1,916,198
Investments	1,272,654
Due from Other Funds	131,426
Accounts Receivable Less Allowance for Doubtful Collections of \$42,405 in 1984 and \$27,524 in 1983	205,128
Inventories (Note 3)	685,436
Prepaid Expenses	<u>225,134</u>

Total Unrestricted

4,435,976

LIABILITIES AND FUND BALANCES

CURRENT FUNDS:

Unrestricted:

Accounts Payable and Accrued Liabilities	\$1,132,850
Accrued Liability for Compensated Absences (Note 7)	746,471
Student Deposits	15,049
Due to State of Montana General Fund	2,754
Due to Other Funds	101,723
Deferred Revenue	354,435
Fund Balances:	
Reserve for Inventories	258,335
Fund Balance (Exhibit B)	<u>1,824,359</u>

Total Unrestricted

4,435,976

Restricted:

Cash	13,052
Due from Federal Government	83,180
Due from Other Funds	12,175
Due from Other Sources	<u>42,445</u>

Total Restricted

150,852

TOTAL CURRENT FUNDS

\$4,586,828

Restricted:

Accounts Payable and Accrued Liabilities	33,657
Due to Other Funds	16,303
Deferred Revenue - Federal Government	-0-
Deferred Revenue - All Other Sources	-0-
Fund Balance (Exhibit B)	<u>100,892</u>

Total Restricted

150,852

LOAN FUNDS:

Cash	\$ 2,391
Investments (Note 2)	73,161
Due from Other Funds	1,413
Accounts Receivable	32,771
Loans Receivable Less Allowance for Doubtful Collections of \$1,296 in 1984 and \$1,351 in 1983 (Note 4)	<u>1,813,658</u>

TOTAL LOAN FUNDS

\$1,923,394

LOAN FUNDS:

Accounts Payable and Accrued Liabilities	\$ 1,662
Due to Other Funds	<u>645</u>
Fund Balances:	
National Direct Student Loan Program:	
U.S. Government Grants Refundable Less Cumulative Cancellations and Other Reductions of \$507,586 in 1984 and \$499,052 in 1983	1,663,436
College Contributions-Restricted	
Total NDSL	245,794
Other College Funds-Restricted	
Total Fund Balances (Exhibit B)	<u>11,857</u>

TOTAL LOAN FUNDS

\$1,923,394

The notes to the financial statements are an integral part of this statement.

EASTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1984

	CURRENT FUNDS		LOAN FUNDS		PLANT FUNDS			
	Unrestricted	Restricted			Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS:								
Tuition and Fees	\$ 2,884,225					\$122,856		
State of Montana Appropriations	10,540,364				\$1,224,515			
Indirect Cost Recoveries	87,750							
Sales, Services, and Miscellaneous	404,649							
Investment Income	5,695			\$ 4,383		22,583	\$ 98,405	
Auxiliary Enterprises Income	4,558,089							
Federal Grants and Contracts		\$2,138,178		105,703				
State Grants and Contracts	36,029	209,252						
Local Government Grants and Contracts		39,535						
Other Grants, Contracts, and Donations		201,744						
Interest Earned on Loans			28,113					
Investment in Plant Facilities							\$ 458,028	
Retirement of Indebtedness							558,580	
Other			9,252					
TOTAL REVENUES AND OTHER ADDITIONS	18,516,801	2,588,709	147,451	1,224,515	145,439	98,405	1,016,608	
EXPENDITURES AND OTHER DEDUCTIONS:								
Current Funds Expenditures	17,055,344	2,539,660						
Indirect Costs Recovered		87,984	15,250					
Loan Cancellations and Write-offs			38,216					
Collection Costs			10,352					
Expended for Plant Facilities				90,000	12,186			
Retirement of Indebtedness						388,580		
Interest on Indebtedness						231,359		
Disposal of Plant Facilities							56,600	
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	17,055,344	2,627,644	63,818	90,000	12,186	619,939	56,600	
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS):								
Current Year Decrease in Compensated Absences	11,802							
Mandatory Transfers	(565,794)					41,600	524,194	
Nonmandatory Transfers	(210,000)				210,000			
Liability for General Fund Reversion	(2,754)							
Institutional Share of Legislative Audits	(448)							
TOTAL TRANSFERS AND DEDUCTIONS	(767,194)			210,000	41,600	524,194		
NET INCREASE (DECREASE) IN FUND BALANCE	694,263	(38,935)	83,633	1,344,515	174,853	2,660	960,008	
FUND BALANCE AT BEGINNING OF YEAR	1,130,096	139,827	1,837,454	115,060	270,627	804,301	21,076,277	
FUND BALANCE AT END OF YEAR	\$ 1,824,359	\$ 100,892	\$ 1,921,087	\$1,459,575	\$445,480	\$806,961	\$22,036,285	

The notes to the financial statements are an integral part of this statement.

EASTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUND REVENUES,
EXPENDITURES, AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES:			
Educational and General Funds:			
Tuition and Fees	\$ 2,322,607		\$ 2,322,607
State Government Support	10,540,364		10,540,364
Sales, Services, and Misc.	46,240		46,240
Indirect Cost Recoveries	87,750		87,750
Federal Grants and Contracts	\$2,202,026		2,202,026
State Grants and Contracts	192,767		192,767
Local Government Grants, Contracts, and Donations	35,958		35,958
Other Grants, Contracts, and Donations	108,909		108,909
Total	<u>12,996,961</u>	<u>2,539,660</u>	<u>15,536,621</u>
Designated Funds:			
Tuition and Fees	561,618		561,618
Investment Earnings	5,695		5,695
Sales, Services, and Misc.	358,409		358,409
State Grant for College	36,029		36,029
Work-Study Program	<u>36,029</u>		<u>36,029</u>
Total	<u>961,751</u>		<u>961,751</u>
Auxiliary Enterprises:			
Tuition and Fees	572,357		572,357
Land Grant Income	154,238		154,238
Investment Earnings	108,997		108,997
Sales, Services, and Misc.	3,722,497		3,722,497
Total	<u>4,558,089</u>		<u>4,558,089</u>
TOTAL CURRENT REVENUES	<u>18,516,801</u>	<u>2,539,660</u>	<u>21,056,461</u>

Continued on page 29.

STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES - 1984
 (Continued)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
EXPENDITURES:			
Educational and General Funds:			
Instruction	6,335,758	341,636	6,677,394
Research		8,302	8,302
Public Service	208,399	339,080	547,479
Academic Support	1,548,979	39,865	1,588,844
Student Services	1,357,601	648,752	2,006,353
Institutional Support	1,391,291	84,091	1,475,382
Operation and Maintenance of Plant	1,715,115		1,715,115
Student Aid	257,838	1,077,934	1,335,772
Total	<u>12,814,981</u>	<u>2,539,660</u>	<u>15,354,641</u>
Designated Funds:			
Instruction	300,662		300,662
Public Service	223,775		223,775
Academic Support	2,463		2,463
Student Services	289,818		289,818
Mandatory Transfer	3,951		3,951
Total	<u>820,669</u>		<u>820,669</u>
Auxiliary Enterprises:			
Expenditures	3,423,645		3,423,645
Mandatory Transfers:			
Principal and Interest	520,243		520,243
Renewals and Replacements	41,600		41,600
Total	<u>3,985,488</u>		<u>3,985,488</u>
TOTAL CURRENT EXPENDITURES AND MANDATORY TRANSFERS			
	<u>17,621,138</u>	<u>2,539,660</u>	<u>20,160,798</u>
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Current Year Decrease in			
Compensated Absences	11,802		11,802
Nonmandatory Transfers	(210,000)		(210,000)
Excess of Restricted Receipts Over Transfers to Revenues		(38,935)	(38,935)
Liability for General Fund Reversion	(2,754)		(2,754)
Institutional Share of Legislative Audit	<u>(448)</u>		<u>(448)</u>
TOTAL OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)			
	<u>(201,400)</u>	<u>(38,935)</u>	<u>(240,335)</u>
NET INCREASE (DECREASE) IN FUND BALANCE			
	<u>\$ 694,263</u>	<u>\$ (38,935)</u>	<u>\$ 655,328</u>

The notes to the financial statements are an integral part of this statement.

EASTERN MONTANA COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 1983

	CURRENT FUNDS		LOAN FUNDS		PLANT FUNDS			
	Unrestricted	Restricted			Unexpended	Renewals & Replacements	Retirement of Indebtedness	Investment in Plant
REVENUES AND OTHER ADDITIONS:								
Tuition and Fees	\$ 2,689,664				\$ 62,458			
State of Montana Appropriations	9,351,303							
Indirect Cost Recoveries	94,423							
Sales, Services, and Miscellaneous	258,274							
Investment Income	4,911		\$ 2,423			\$ 20,206	\$ 110,531	
Auxiliary Enterprises Income	3,959,514							
Federal Grants and Contracts		\$1,966,233	129,882					
State Grants and Contracts		190,094						
Local Government Grants and Contracts		207,160						
Other Grants, Contracts, and Donations		202,708						
Interest Earned on Loans			31,747					
Investment in Plant Facilities							\$ 1,184,989	
Retirement of Indebtedness							214,952	
Other								
TOTAL REVENUES AND OTHER ADDITIONS	16,358,089	2,566,195	174,431	62,458	20,206	110,531	1,399,941	
EXPENDITURES AND OTHER DEDUCTIONS:								
Current Funds Expenditures	15,628,582	2,388,933						
Indirect Costs Recovered		80,219	15,164					
Loan Cancellations and Write-offs			81,900					
Collection Costs			6,778					
Expended for Plant Facilities				295,154	21,443			
Retirement of Indebtedness						214,952		
Interest on Indebtedness						217,067		
Disposal of Plant Facilities							37,603	
TOTAL EXPENDITURES AND OTHER DEDUCTIONS	15,628,582	2,469,152	103,842	295,154	21,443	432,019	37,603	
TRANSFERS AMONG FUNDS-ADDITIONS (DEDUCTIONS):								
Mandatory	(410,662)					41,600	369,062	
Nonmandatory (net)	(244,911)				244,911			
Revenue Received in Excess of Expenditures	(82,627)							
TOTAL TRANSFERS AND OTHER ADDITIONS (DEDUCTIONS)	(738,200)	_____	_____	244,911	41,600	369,062	_____	
NET INCREASE (DECREASE) IN FUND BALANCE	(8,693)	97,043	70,589	12,215	40,363	47,574	1,362,338	
FUND BALANCE AT BEGINNING OF YEAR	540,109	42,784	1,766,865	102,845	230,264	756,727	19,713,939	
ADJUSTMENT TO BEGINNING FUND BALANCE FOR CHANGES IN ACCOUNT PRINCIPAL								
	598,680	_____	_____	_____	_____	_____	_____	
FUND BALANCE AT END OF YEAR	\$ 1,130,096	\$ 139,827	\$ 1,837,454	\$115,060	\$270,627	\$804,301	\$21,076,277	

The notes to the financial statements are an integral part of this statement.

EASTERN MONTANA COLLEGE
STATEMENT OF CURRENT FUND REVENUES,
EXPENDITURES, AND OTHER CHANGES
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES:			
Educational and General Funds:			
Tuition and Fees	\$ 2,054,126		\$ 2,054,126
State Government Support	9,351,303		9,351,303
Sales, Services, and Misc.	67,553		67,553
Indirect Cost Recoveries	94,423		94,423
Federal Grants and Contracts		\$1,788,296	1,788,296
State Grants and Contracts		204,465	204,465
Local Government Grants, Contracts, and Donations		194,361	194,361
Other Grants, Contracts, and Donations		201,811	201,811
Total	<u>11,567,405</u>	<u>2,388,933</u>	<u>13,956,338</u>
Designated Funds:			
Tuition and Fees	635,538		635,538
Investment Earnings	4,911		4,911
Sales, Services, and Misc.	<u>190,361</u>		<u>190,361</u>
Total	<u>830,810</u>		<u>830,810</u>
Auxiliary Enterprises:			
Tuition and Fees	559,737		559,737
Land Grant Income	113,167		113,167
Investment Earnings	94,963		94,963
Sales, Services, and Misc.	<u>3,191,647</u>		<u>3,191,647</u>
Total	<u>3,959,514</u>		<u>3,959,514</u>
TOTAL CURRENT REVENUES	<u>16,357,729</u>	<u>2,388,933</u>	<u>18,746,662</u>

Continued on page 32.

STATEMENT OF CURRENT FUND REVENUES, EXPENDITURES, AND OTHER CHANGES - 1983
 (Continued)

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
EXPENDITURES:			
Educational and General Funds:			
Instruction	5,862,227	240,809	6,103,036
Research		22,165	22,165
Public Service	44,094	533,715	577,809
Academic Support	1,119,998	17,105	1,137,103
Student Services	1,203,461	604,725	1,808,186
Institutional Support	1,472,475	41,406	1,513,881
Operation and Maintenance of Plant	1,687,782		1,687,782
Student Aid	195,241	929,008	1,124,249
Total	<u>11,585,278</u>	<u>2,388,933</u>	<u>13,974,211</u>
Designated Funds:			
Instruction	391,282		391,282
Public Service	171,613		171,613
Academic Support	251		251
Student Services	247,196		247,196
Total	<u>810,342</u>	<u></u>	<u>810,342</u>
Auxiliary Enterprises:			
Expenditures	3,232,602		3,232,602
Mandatory Transfers:			
Principal and Interest	369,062		369,062
Renewals and Replacements	41,600		41,600
Total	<u>3,643,264</u>	<u></u>	<u>3,643,264</u>
TOTAL CURRENT EXPENDITURES AND MANDATORY TRANSFERS	<u>16,038,884</u>	<u>2,388,933</u>	<u>18,427,817</u>
OTHER TRANSFERS AND ADDITIONS			
(DEDUCTIONS):			
Excess of Restricted Receipts			
Over Transfers to Revenues		97,043	97,043
Nonmandatory Transfers (Net)	(244,911)		(244,911)
Revenue Received in Excess of Expenditures	<u>(82,627)</u>	<u></u>	<u>(82,627)</u>
TOTAL OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS)	<u>(327,538)</u>	<u>97,043</u>	<u>(230,495)</u>
NET INCREASE (DECREASE) IN FUND BALANCE	<u>\$ (8,693)</u>	<u>\$ 97,043</u>	<u>\$ 88,350</u>

The notes to the financial statements are an integral part of this statement.

EASTERN MONTANA COLLEGE
Notes to Financial Statements
June 30, 1984

Note 1 - BASIS OF ACCOUNTING

The financial statements of Eastern Montana College are prepared on the accrual basis of accounting except for depreciation accounting and allowance for uncollectible loans as explained in Note 4 to the financial statements. The statement of Current Operating Funds Revenues, Expenditures, and Other Changes is a statement of financial activities of current operating funds related to the year ended June 30, 1984. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

In order to ensure observance of limitations and restrictions placed on the use of the resources available to the College, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified into funds that are in accordance with activities or objectives specified. Separate accounts are maintained for each fund. However, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups.

Current operating funds include unrestricted funds allocated to specific purposes by action of the Board of Regents and funds restricted by outside sources. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds.

To the extent that current funds are used to finance plant assets, the amounts so provided are reported as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions for debt amortization, interest, equipment renewal and replacement; and (3) transfers of a non-mandatory nature for all other cases.

Gains and losses arising from the sale, collection or other disposition of investments and other non-cash assets are reported in the fund which owned such assets. Ordinary income derived from investments, receivables and the like, is reported in the fund owning such assets. Other unrestricted revenue is reported in the unrestricted current fund. Restricted revenue derived from gifts, grants, and appropriation and other restricted sources are reported in the appropriate funds.

During the fiscal year the recording of revenue received for Student Activity Fees was charged to first recognize the revenue in a designated account. The total revenue recognized in fiscal year 1984 was \$239,770.

Other significant accounting policies are set forth in the accompanying financial statements and notes thereto.

Note 2 - INVESTMENTS

All investments are recorded at cost. Investments owned by the several funds at June 30, 1984, are as follows:

	<u>Cost</u>
Current unrestricted funds:	
Auxiliary enterprises	\$1,272,654
Loan funds	73,161
Plant funds:	
Renewals and replacements	420,669
Retirement of Indebtedness	757,932
Agency funds	<u>251,338</u>
Total	<u>\$2,775,754</u>

Investment income is generally recorded when received. The above investments consist primarily of United States treasury obligations, bills and notes.

Note 3 - INVENTORIES

It is the policy of the college to record supplies inventories for certain educational and service departments in addition to inventories held for resale in auxiliary enterprises such as the bookstore and student union. All recorded inventories are stated at cost or market using the first-in, first-out method.

Note 4 - ALLOWANCE FOR DOUBTFUL ACCOUNTS - LOAN FUNDS

No provision for uncollectible National Direct Student Loans has been provided for in the accompanying financial statements. The following statistics will be reflected in the annual report of the financial aid programs to the Department of Education:

Student loan amounts advanced - all borrowers	\$4,040,114
Total value of loan advances not in repayment status (grace period, armed forces, Peace Corps, Vista, student status, hardship)	<u>681,378</u>
Total amount of matured principal	<u>\$3,358,736</u>
Total amount of delinquent loans	<u>\$258,050</u>
Percentage of loans in default (258,050 - 3,358.736)	7.7%

The College follows accounting practices for the National Direct Student Loan Fund that are in accordance with government regulations. Those regulations do not provide for recognition of interest receivable or future loan cancellations by the government. To that extent the portion of the financial statements relating to loan funds are at variance with generally accepted accounting principles. However, 90% of any interest receivable or uncollectible loans and 100% of government cancellations would add to or reduce the U.S. Government's portion of the fund balance and, therefore, would not have a significant effect on the College's overall financial position. The allowance for doubtful accounts of \$1,296 shown on the accompanying balance sheet is for the College's other loan fund.

Note 5 - BONDS PAYABLE

At June 30, 1984 the College had a total of \$4,638,000 in outstanding revenue bonds payable. These bonds were issued for construction of various college facilities and are summarized as follows:

1956 Indenture, Dormitory Bonds of 1956 (Apsaruke Hall). There are \$142,000 of bonds outstanding as of June 30, 1984. Payments are due in varying annual installments on October 1st through 1996. The annual debt service for the year ending June 30, 1985 is \$13,768. The future maximum annual debt service requirement of \$14,204 will be in the year ending June 30, 1987. The bonds bear interest at 2-3/4% per annum with semi-annual payment dates of April 1st and October 1st. The indenture requires that certain amounts be deposited with a trustee in a bond service account to meet current debt service requirements and to maintain a reserve. In the opinion of Galusha, Higgins and Galusha, Certified Public Accountants, the College did not transfer enough funds to meet the required June 30, 1984 reserve of \$43,768 by \$921. Also, in the opinion of the auditor, monies invested by the trustee in a money market fund of U.S. obligations did not meet the requirement of the bond indenture that funds be invested in direct obligations of the U.S. Government or obligations unconditionally guaranteed by the U.S. Government.

1965 Indenture, Physical Education Gymnasium Building Revenue Bonds refunding Series 1959 bonds. There are \$175,000 of bonds outstanding at June 30, 1984. Payments are due in varying annual installments on July 1st through 1985. The annual debt service for the year ending June 30, 1985 is \$89,969. The future maximum annual debt service requirement of \$93,375 will be in the year ending December 31, 1985. The bonds bear interest at 3-3/4% per annum with semi-annual payment dates of January 1st and July 1st. The significant indenture requirements include an annual earnings requirement of \$126,056 and that certain amounts be deposited with the trustee in a bond fund to meet current debt service requirements and to maintain a reserve. These requirements were met in the year ended June 30, 1984.

1965 Resolution, Housing and Dining Revenue Bonds of 1964 (Petro Hall and refunding Rimrock Hall), issued in two series. There are \$2,991,000 bonds outstanding at June 30, 1984. Payments are due in varying annual installments on October 1st through 2004. The annual debt service for the year ending June 30, 1985 is \$211,356. The future maximum annual debt service requirement of \$218,650 will be in the year ending June 30, 1990. The bonds bear interest at 3-1/8% and 3-5/8% per annum with semi-annual payment dates of April 1st and October 1st.

Significant requirements include that "net revenues" of the facilities be sufficient to make required transfers to "bond service" and "repair and replacement reserve" accounts maintained by a trustee. In the opinion of Galusha, Higgins and Galusha, Certified Public Accountants, the College did not transfer enough funds to meet the required June 30, 1984 reserve of \$551,320 by \$39,354. Also, in the opinion of the auditor, monies invested by the trustee in a money market fund of U.S. obligations did not meet the requirement of the bond indenture that funds be invested in direct obligations of the U.S. Government or obligations unconditionally guaranteed by the U.S. Government.

The College records interest expense on the above bonds when paid. The recognition of accrued interest expense would not have a material effect on the College's overall financial position.

General obligation long range building program bonds, Series 1980, dated March 1, 1980, issued by the State of Montana in the amount of \$1,500,000 for the construction of an addition to the Physical Education Building at Eastern Montana College, were refunded by issuance of general obligation refunding bonds, Series 1983A, dated August 1, 1983, in the amount of \$1,330,000. Payments are due in varying annual installments on August 1st through 2006. The bonds bear interest at 9.3146% with semi-annual payment dates of February 1st and August 1st.

All outstanding bonds were either paid or escrowed on September 20, 1984 and a new bond series 1984 issued in the amount of \$7,380,000. The proceeds of the bond are to be used for refinancing, remodeling the student union and other projects.

Note 6 - RETIREMENT PROGRAMS

Retirement benefits are provided for the academic staff through the Montana Teachers' Retirement System (TRS) and for the non-academic staff through the Montana Public Employees' Retirement System (PERS). Both plans are operated by the State of Montana and membership is compulsory. Contributions for participants and the College are based on a percentage of the participant's salary.

Defined benefits under both plans are based on years of service and final average salary of the participant. The actuarial present value of vested benefits and the amount, if any, of unfunded past service costs for employees covered under the plans has not been determined. The College's share of the cost of these plans for the year ended June 30, 1984 was \$626,067.

Note 7 - COMMITMENTS AND CONTINGENT LIABILITIES

Accounting for major construction projects of the College is performed by the Architecture and Engineering Division of the Montana Department of Administration. At June 30, 1984, certain projects had remaining spending authority (i.e., funds appropriated from the long range building fund for college building projects) of approximately \$553,425. Since these funds will become available to the College only when construction costs are incurred, they have not been included in the College balance sheet assets.

In accordance with FASB Statement No. 43 "Accounting for Compensated Absences", the liability and charge for compensated absences related to current and previous years are recorded in the unrestricted current fund. The beginning fund balance for July 1, 1982 was restated to reflect the liability in the amount of \$598,680 for compensated absences.

The value of unused vacation and sick leave of \$746,471 accumulated by employees is recorded as a liability. At June 30, 1984 permanent non-faculty employees may accumulate and carry to the following calendar year two times the maximum number of vacation days earned annually. Unused vacation leave is purchased at full value from employees upon termination. Unused sick leave earned since July 1, 1971 is purchased from all employees at twenty-five percent of its value upon termination.

Note 8 - LEASES

During the year ended June 30, 1984, Eastern Montana College entered into a sublease agreement with the State of Montana for a telephone system.

The following is a schedule by years of the future minimum rental payments required under the lease agreement which expires November, 1993.

Year ending June 30,

1985	\$ 144,332
1986	144,332
1987	144,332
1988	144,332
1989	144,332
Later Years	<u>481,106</u>
Total minimum payments required	<u>\$1,202,766</u>

During this year ended June 30, 1984, Eastern Montana College recorded \$96,221 in expenditures under this lease agreement.

EASTERN MONTANA COLLEGE
SCHEDULE OF FEDERAL GRANTS AND CONTRACTS
RECEIPTS, REVENUES, EXPENDITURES, AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

<u>Name of Grant</u>	<u>Grant Number</u>	<u>Fiscal Year 1984 Revenue</u>	<u>Fiscal Year 1984 Expenditures</u>
<u>Department of Education</u>			
NDSL	P008422415	\$ 301,427 ¹	\$ 329,371 ²
Personnel Prep	G008101799	133,974	133,974
Bilingual Teacher Training	G008201031	100,726	100,726
T3-Challenge	G008202759	15,290	15,290
Co-op Ed Grant	Q00-82-24-257	1,103	1,103
Title 3	G008203105	290,846	290,846
Bilingual Consultant 84	G008300157	43,926	43,926
MCHC-MESH 84	300-83-0192	88,256	88,256
Library Resources 84	G008356022	545	545
Special Services	G008004407	77,867	77,867
College Work Study 83	P008312415	1,349	1,349
College Work Study 84	P008412415	312,040	312,040
Upward Bound 83	G008000305	83,310	83,310
Upward Bound 84	G008301417	71,372	71,372
SEOG-I 83	P008332415	196	196
SEOG-R 83	P008342415	170	170
SEOG-I 84	P008432415	70,013	70,013
SEOG-R 84	P003442415	45,113	45,113
Pell 84	R008402053	928,560	928,560
Special Services 85	G008400544	5,558	5,558
 Total Department of Education		<u>2,571,641</u>	<u>2,599,585</u>
<u>National Science Foundation</u>			
Isolelectric Equipment	R11-8213048	178	178
 Total National Science Foundation		<u>178</u>	<u>178</u>
<u>Small Business Administration</u>			
Small Business Institute	SBA-8337-MA-84	1,148	1,148
 Total Small Business Administration		<u>1,148</u>	<u>1,148</u>
<u>Department of Commerce</u>			
MIA Facilities	30-01-22243	(7,037)	(7,037)
 Total Department of Commerce		<u>(7,037)</u>	<u>(7,037)</u>
<u>Department of Health and Human Services</u>			
Volunteers for Fam. in Stress	90PD86510/01	9,490	9,490
Women's Equality Day	No Number	300	300
 Total Department of Health and Human Services		<u>9,790</u>	<u>9,790</u>

<u>Name of Grant</u>	<u>Grant Number</u>	<u>Fiscal Year 1984 Revenue</u>	<u>Fiscal Year 1984 Expenditures</u>
<u>Northern Cheyenne Board of Health</u>			
IHS-MCHC-	84-003	<u>2,676</u>	<u>2,676</u>
Total Northern Cheyenne Board of Health		<u>2,676</u>	<u>2,676</u>
<u>Department of Labor</u>			
Job Corps	210165	<u>(275)</u>	<u>(275)</u>
Total Department of Labor		<u>(275)</u>	<u>(275)</u>
<u>Other Federal Agencies Sponsoring Women's Equality Day</u>			
U.S. Fish and Wildlife Srv.	61410-0076-83	300	300
Western Area Power Admin.	3-11-B1-0083.01	300	300
Bureau of Land Mgt.	MT950-PH3-183	300	300
Bureau of Reclamation	3-PG-60-08830	300	300
Bureau of Reclamation	2-01-60-06980	300	300
Bureau of Reclamation	1-01-60-7160	300	300
Department of Interior-BIA	2C50-0100466	300	300
Department of Interior-BIA	IC50-0100389	300	300
U.S. Forest Service	40-0355-1-590	<u>300</u>	<u>300</u>
Total Other		<u>2,700</u>	<u>2,700</u>

Footnote: This schedule was prepared on an accrual basis except as noted below.

¹This includes \$80,865 of federal contribution and \$220,562 of loan payments.

²This includes \$314,121 of NDSL loans advanced and \$15,250 of Administrative costs.

EASTERN MONTANA COLLEGE
SCHEDULE OF FEDERAL GRANTS AND CONTRACTS
RECEIPTS, REVENUES, EXPENDITURES, AND DISBURSEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

<u>Name of Grant</u>	<u>Grant Number</u>	<u>Fiscal Year 1983 Revenue</u>	<u>Fiscal Year 1983 Expenditures</u>
<u>Department of Education</u>			
Personnel Prep	G008101799	\$ 108,703	\$ 108,703
Teacher Corps	G007803063	8,752	8,752
Montana ETS	G008005211	2,929	2,929
Co-Op Education	G008224257	57	57
Bilingual Teacher Training	G008201031	93,324	93,324
Title 3-Challenge Grant	G008202759	9,386	9,386
Title 3-Curriculum Dev.	G008203105	18,413	18,413
Title 3-Facility Dev.	G008001680	1,307	1,307
Title 3-Inst. Dev. Ctr.	G008001680	10,300	10,300
Library Resources	G008151340	1,135 ¹	1,135 ²
National Direct Student Loan	P008322415	292,561 ¹	311,096 ²
College Work-Study	P008312415	338,524	338,524
SEOG I	2E003293	67,308	67,308
SEOG R	2E003293	37,400	37,400
Pell	R008302053	768,461	768,461
Pell Adm. Allow.	R008302053	4,555	4,555
Special Services	G008004407	79,599	79,599
Upward Bound	G008000305	153,667	153,667
Title 3-Student Serv.	G008001680	10,054	10,054
Title 3-Reading, Writing	G008001680	2,459	2,459
Title 3-Career Advising	G008203105	14,287	14,287
Title 3-AIS & Resource Ctr	G008203105	14,414	14,414
Title 3-Admin. Improv.	G008001680	13,685	13,685
Title 3-Improv. Adm. Svrs.	G008203105	26,828	26,828
Total Department of Education		<u>2,078,108</u>	<u>2,096,643</u>
<u>Department of Energy</u>			
Prospectus for Leafy Spurge	DEFG48-812803006	3,449	3,449
Total Department of Energy		<u>3,449</u>	<u>3,449</u>
<u>National Service Foundation</u>			
Isolelectric Equipment	R11-8213048	4,400	4,400
Total National Science Foundation		<u>4,400</u>	<u>4,400</u>
<u>Department of Labor</u>			
Job Corps Program	JG-80001-49	25,664	25,664
Total Department of Labor		<u>25,664</u>	<u>25,664</u>

<u>Name of Grant</u>	<u>Grant Number</u>	<u>Fiscal Year 1983 Revenue</u>	<u>Fiscal Year 1983 Expenditures</u>
<u>Small Business Administration</u>			
Small Business Institute	SBA-5498-MA-81	\$ 54	\$ 54
Total Small Business Administration		<u>54</u>	<u>54</u>
<u>Bureau of Indian Affairs</u>			
Women's Equality Day	3G5-0100527	300	300
AIA-Oil & Gas Contract	G50-C1420-5413	<u>11,916</u>	<u>11,916</u>
Total Bureau of Indian Affairs		<u>12,216</u>	<u>12,216</u>
<u>Department of Commerce</u>			
NTIA Facilities Grant	30-01-22243	31,356	31,356
Satellite Dish	30-01-01761	<u>25,450</u>	<u>25,450</u>
Total Department of Commerce		<u>56,806</u>	<u>56,806</u>
<u>Department of Health and Human Services</u>			
Women's Equality Day	No Number	300	300
Volunteers for Fam. in Stress	90DD86510/01	<u>16,504</u>	<u>16,504</u>
Total Department of Health and Human Services		<u>16,804</u>	<u>16,804</u>
<u>Custer Battlefield Historical and Museum Association, Inc.</u>			
Custer Collection		<u>232</u>	<u>232</u>
Total Custer Battlefield Historical and Museum Association, Inc.		<u>232</u>	<u>232</u>
<u>Other Federal Agencies Sponsoring Women's Equality Day</u>			
Bureau of Land Mgt.	MT-950-M2-200	300	300
U.S. Forest Service	40-0355-3 13	300	300
U.S. Fish, Wildlife Service	61-100-0532-81	300	300
U.S. Fish, Wildlife Service	61-100-0075	300	300
Department of Interior	1-01-60-07450	300	300
Department of Interior	2-01-60-06980	300	300
Western Power Admin.	2-11-B0-0009801	300	300
Department of Agriculture	40-0355-2354	300	300
Social Security Admin.		<u>250</u>	<u>250</u>
Total Other Federal Agencies Sponsoring Women's Equality Day		<u>2,650</u>	<u>2,650</u>

Footnote: This schedule was prepared on an accrual basis except as noted below.

¹ This includes \$77,250 of federal contributions and \$215,311 of loan payments.

² This includes \$296,282 of NDSL loans advanced and \$14,814 of Administrative costs.

EASTERN MONTANA COLLEGE
SCHEDULE OF STUDENT FULL-TIME EQUIVALENTS (FTE)³
FOR THE FISCAL YEARS ENDING JUNE 30, 1983 AND 1984

<u>Quarter</u>	<u>Year</u>	<u>Undergraduate FTE's Reported¹</u>	<u>Graduate FTE's Reported²</u>	<u>Total FTE's Reported</u>
Summer	1982	756	230	986
Fall	1982	3,257	60	3,317
Winter	1983	3,122	93	3,215
Spring	1983	2,871	86	2,957
Summer	1983	792	179	971
Fall	1983	3,416	74	3,490
Winter	1984	3,197	100	3,297
Spring	1984	2,747	104	2,851

¹Undergraduate quarterly credit hours divided by 15.

²Graduate quarterly credit hours divided by 12.

³Includes both Unrestricted and Restricted funded FTEs.

APPENDIX A

SCHEDULE OF ERRORS ON FINAL FISAP AND PELL REPORTS FISCAL YEARS 1982-83 AND 1983-84

A. FISAP

Fiscal Year 1982-83

1. Part 2, Section D, Line 9

The maintenance of level of effort figure is understated by \$10,575. This was due to including the wrong amount of student wages.

The correct maintenance of effort amount is \$596,218.

2. Part 6, Section A, lines 2 & 3, column a and b line 10, columns a and b

The FISAP shows that \$295,682 in NDSL was awarded to students. A computer listing showing every student who received aid and the amount has a total of \$296,682 in NDSL moneys awarded. The SFA director determined the FISAP figure used a computer report that broke the students down by income. One student's income was never input so this student's record was not included in that total. This student had received a \$1,000 NDSL loan. The report also included a \$400 NDSL loan to a student who never collected his loan. The correct amounts are as follows:

line 2, column A	27	line 3, column A	27
line 2, column B	22,664	line 3, column B	25,586
line 10, column A	291		
line 10, column B	296,282		

Fiscal Year 1983-84

1. Part II, Section E, Line 15

EMC excluded \$122,856 of computer fees in the Plant Fund, \$24,203 of student activity fees in the Designated Fund, and \$9,308 of special fees in the Agency Fund. This results in tuition and fees being understated by \$156,367.

B. Final Pell Progress Report

Fiscal Year 1982-83

1. Line 20 - Part-time students expenditures and receipts for entire year.

Instead of using all quarters to determine the part-time student expenditures, the college inadvertently omitted the spring 1984 quarter from its calculations. This caused this line to be understated by \$6,602 in amount and 16 in count.

The correct amounts are:

Amount	\$16,145
Students	61

AGENCY RESPONSES



May 31, 1985

RECEIVED

JUN 03 1985

MONTANA LEGISLATIVE AUDITOR

OFFICE OF THE PRESIDENT
Billings, Montana 59101
(406) 657-2300

Mr. Robert R. Ringwood
Legislative Auditor
Room 135 - State Capitol
Helena, Montana 59620

Dear Mr. Ringwood:

Enclosed are the responses to the audit recommendations contained in your recent Financial and Compliance Audit of the two fiscal years ended June 30, 1984.

I would like to call particular attention to recommendations 7-A, 8-A, and 15-A which will require additional staff and costs to fully implement. While we are all vitally concerned about proper stewardship of public funds, we must constantly balance our unmet needs in the areas of Instruction, Research and Public Service against the desire for better internal control. We estimate that it could cost the College as much as \$100,000 per year to totally implement the recommendations contained in your report. Given our mission, this is money the College simply does not have. Indeed, the College's support budget was further strained during the recent Legislative Session when costs from other state agencies were passed along to the campus without providing additional funding. These costs, plus new expenditures for hazardous waste disposal and asbestos containment, must be absorbed into the support and plant budgets of the units.

I appreciate the many hours of hearings during which the Legislators listened to requests for program modifications to assist with funding the costs mentioned above, and certainly the campus will operate within the resources allocated. My staff will strive in every way possible to comply with your recommendations to strengthen internal and inventory controls within the limited resources available to them. However, because of our estimates of the cost required for full implementation of the recommendations, it is possible that your auditors may find similar, but hopefully fewer, situations during their next visit.

Please express our gratitude to your staff for the numerous suggestions they made to us, which are not included in the report. They are most helpful. We appreciate the conclusions expressed.

Sincerely,

Bruce H. Carpenter
Bruce H. Carpenter
President

RECOMMENDATION #1

WE RECOMMEND EMC COMPLY WITH THE BUDGET AMENDMENT PROCESS AND BOARD OF REGENTS' APPROVAL PRIOR TO TRANSFERRING SPENDING AUTHORITY.

EMC RESPONSE:

CONCUR.

The action taken by the College was within the authority of the Board of Regents item 43-008-R0684 that states in part:

"...in order to facilitate year-end closing, the Commissioner or his designee shall be authorized to approve budget amendments between expenditure categories and programs not exceeding 2% of the total agency's budget..."

The program transfer cited is within the 2% year end-closing limit.

RECOMMENDATION #2

WE RECOMMEND THE COLLEGE:

- A. COMPLY WITH THE APPROPRIATION BILL LANGUAGE CONCERNING ALLOCATION OF AUDIT COSTS.
- B. CONSIDER REQUESTING LANGUAGE IN THE APPROPRIATION BILL WHICH ALLOWS PROPER ALLOCATION OF AUDIT COSTS.

EMC RESPONSE:

- A. Do not Concur.

The college contracted for the audit of KEMC, the Revenue Bonds and the financial aid programs with the knowledge and concurrence of the Legislative Auditor. The Revenue Bonds paid for the audit cost and the audit costs of KEMC and Financial Aid were paid with operating funds. It is not appropriate to charge the Auxiliary enterprise accounts the second time for the Legislative Audit, therefore, the college paid the 25% with operating funds appropriated to the College. The financial aid programs are grants from the U.S. Government and do not allow the college to charge these grants for audit costs.

- B. Concur.

RECOMMENDATION #3

WE RECOMMEND EMC:

- A. USE NONTREASURY BANK ACCOUNTS ONLY FOR PURPOSES ALLOWED BY STATE LAW AND POLICY.
- B. MAINTAIN NONTREASURY CASH ACCOUNTS AT THE AUTHORIZED AMOUNT.
- C. RECORD RETIRED EMPLOYEES' INSURANCE MONEYS IN THE AGENCY FUND.

D. DISCUSS POSSIBLE POLICY REVISIONS WITH THE DEPARTMENT OF ADMINISTRATION REGARDING NONTREASURY BANK ACCOUNTS.

EMC RESPONSE:

A. Concur.

The Clearing Bank Account was closed in November, 1984 based upon an interim audit recommendation.

B. Partially Concur.

Periodically, it is necessary to have additional cash on hand. This generally occurs on payday every two weeks. Rather than keep large amounts of cash on hand, the college withdraws funds from its revolving fund on the morning the cash is needed and redeposits the funds after the close of business for that day. The college will seek specific authority for this procedure.

C. Concur.

An agency account has been established and utilized based upon an interim audit recommendation.

D. Concur.

The college will initiate a discussion with the Department of Administration to revise the policy for agencies based outside of Helena regarding the use of its Contingent Revolving Fund.

RECOMMENDATION #4

WE RECOMMEND EMC OBTAIN AUTHORIZATION FROM THE PROPERTY AND SUPPLY BUREAU FOR ALL FUTURE ASSET DISPOSALS.

EMC RESPONSE:

Concur.

The college received permission from the Property and Supply Bureau of the Department of Administration to conduct a garage sale. The sale was held during the month of May, 1985 and all approved surplus was sold.

RECOMMENDATION #5

WE RECOMMEND EMC TAKE ACTION TO TERMINATE ASEMC EMPLOYEES' PARTICIPATION IN PERS.

EMC RESPONSE.

Do not concur.

The employees referenced were recruited as employees of Eastern Montana College and are currently working as employees of the college and not employees of the Associated Students of Eastern Montana College. The recommendation appears to be a misunderstanding between form and substance. The employees work for the college but are funded from a Regent approved student activity fee budgeted by the Associated Students. In the future, the college will show the concerned employees in the current unrestricted education and general budget with the source of funds for appropriate salaries and benefits (including PERS) from student activity fees.

RECOMMENDATION #6

WE RECOMMEND THE BOARD OF REGENTS AUTHORIZE COMPENSATION RATES ONLY AS ALLOWED BY STATE LAW.

EMC RESPONSE:

Concur.

The college was paying Local Executive Board members in accordance with Regent policy 217.1. The college will now pay Local Executive Board members in accordance with state law.

RECOMMENDATION #7

WE RECOMMEND EMC:

- A. STRENGTHEN INTERNAL CONTROLS OVER PURCHASING AND EXPENDITURES.
- B. ENSURE PERSONNEL ESTABLISH AND FOLLOW CONTROL PROCEDURES.
- C. SUBMIT ADDITIONAL WARRANT DOCUMENTATION TO HELENA FOR DIRECT MAILING TO VENDORS.

EMC RESPONSE:

- A. Concur.

Control alternatives will be developed. Within financial resources, the College will begin to comply with the recommendation. In order to fully comply, additional staff will be required.

B. Concur.

C. Concur.

RECOMMENDATION #8

WE RECOMMEND EMC IMPLEMENT CONTROLS TO ENSURE THE PHYSICAL PLANT INVENTORY CAN BE PROPERLY VALUED.

EMC RESPONSE:

A. Concur.

The inventory system currently used will have to be changed. Within available financial resources, the College will begin to comply with the recommendation. In order to fully comply, additional staff will be required.

RECOMMENDATION #9

WE RECOMMEND EMC:

- A. ENSURE PHYSICAL COUNTS ARE PROPERLY PERFORMED.
- B. PROPERLY RECONCILE THE PHYSICAL COUNT AND THE INVENTORY LISTING.

EMC RESPONSE:

A. Concur.

B. Concur.

RECOMMENDATION #10

WE RECOMMEND EMC IMPLEMENT ADEQUATE CONTROLS TO ENSURE AN ACCURATE INVENTORY CUTOFF AT JUNE 30.

EMC RESPONSE:

A. Concur.

RECOMMENDATION #11

WE RECOMMEND EMC RECORD INVENTORY ON ITS ACCOUNTING RECORDS IN THE PROPER SUBFUND.

EMC RESPONSE.

Concur.

The recommendation was implemented in July, 1984.

RECOMMENDATION #12

WE RECOMMEND EMC:

- A. ESTABLISH ADEQUATE SEGREGATION OF DUTIES IN THE CASH RECEIPT PROCESS.
- B. RESTRICTIVELY ENDORSE ALL CHECKS IMMEDIATELY UPON RECEIPT.

EMC RESPONSE.

A. Concur.

This is a recognized standard requirement of internal control which must be weighed against the cost of implementation. Wherever possible, duties will continue to be segregated as recommended. However, in those areas where only one person is employed, we will continue to evaluate established controls.

B. Concur.

RECOMMENDATION #13

WE RECOMMEND EMC WORK WITH THE STUDENT NEWSPAPER TO ESTABLISH A SYSTEM OF CONTROLS OVER ADVERTISING SALES AND COLLECTIONS.

EMC RESPONSE.

Partially Concur.

Eastern Montana College will work with the student newspaper to establish a system of controls. It is anticipated that when Eastern Montana College's accounts receivables system is installed, the system will significantly assist in resolving many of the issues discussed.

RECOMMENDATION #14

WE RECOMMEND EMC CONTINUE DEVELOPING A SYSTEM TO ADEQUATELY RECORD ALL RECEIVABLES.

EMC RESPONSE.

Concur.

This recommendation was included in the last audit. Since that time, Eastern Montana College has designed, programmed and

will implement an accounts receivable system concurrent with fall quarter enrollment.

RECOMMENDATION #15

WE RECOMMEND EMC:

- A. PERFORM PERIODIC PHYSICAL COUNTS OF FIXED ASSETS.
- B. TAG PROPERTY ITEMS.
- C. RECORD INSTALLMENT PURCHASES AT CORRECT COST.

EMC RESPONSE.

A. Concur.

The college does perform periodic counts of fixed assets. These counts are costly in terms of the number of staff hours required. Within available financial resources, the college will begin to comply with the recommendation. In order to fully comply, additional staff will be required.

B. Concur.

The college makes every attempt to properly tag property items.

C. Concur.

RECOMMENDATION #16

WE RECOMMEND EMC FILE AMENDED FISAP AND PELL REPORTS FOR FISCAL YEARS 1982-83 AND 1983-84.

EMC RESPONSE.

Concur.

An amended FISAP report was filed May 13, 1985. Amended PELL reports are being prepared and will be filed.

RECOMMENDATION #17

WE RECOMMEND EMC:

- A. ACCURATELY CALCULATE PELL REFUNDS.
- B. REQUIRE PROPERLY COMPLETED TIME SHEETS.
- C. PROPERLY VALIDATE ALL STUDENTS PRIOR TO AWARDING STUDENT AID.
- D. CORRECTLY CALCULATE THE COST OF EDUCATION.

EMC RESPONSE:

A. Concur.

The college has revised its procedure to insure that PELL awards are properly adjusted when a student's enrollment drops below 12 credit hours each quarter.

B. Concur.

This was a single instance which has been corrected.

C. Concur.

This was a single instance which was corrected.

D. Concur.

This was a single instance which was corrected and did not result in an overaward.

RECOMMENDATION #18

WE RECOMMEND EMC ENSURE ADEQUATE DOCUMENTATION IS MADE TO VERIFY COMPLIANCE WITH GRANTOR REPORTING REQUIREMENTS.

EMC RESPONSE:

Concur.

Required reports were appropriately filed with the granting agency. However, when the employee directing this project terminated their employment with the college, the employee took the files. The college has been unable to recover the files. The College has contacted the granting agency and requested a copy of the report.



THE MONTANA UNIVERSITY SYSTEM

33 SOUTH LAST CHANCE GULCH

HELENA, MONTANA 59620-2602

(406) 444-6570

COMMISSIONER OF HIGHER EDUCATION

May 29, 1985

RECEIVED

MAY 30 1985

Mr. Robert R. Ringwood
Legislative Auditor
State Capitol
Helena, Montana 59620

MONTANA LEGISLATIVE AUDITOR

Dear Mr. Ringwood:

In response to your audit at Eastern Montana College, I submit the following.

AUDIT RECOMMENDATION #1

We recommend EMC comply with the budget amendment process and Board of Regents' policy by obtaining Board of Regents' approval prior to transferring spending authority.

RESPONSE: Partially Concur

Under Regent policy 43-008-R0684, EMC may transfer up to 2% of its budget at year-end with the concurrence of the Commissioner or his designee. Several campuses have to make minor adjustments in expenditures at year-end. It is not uncommon for a campus to phone these changes into our office and we can transmit the forms to Accounting on the same day. EMC failed to follow the normal procedures regarding the program transfers. Our subsequent review of the transfer revealed that it would have been approved. EMC has provided assurances that it will comply in the future.

AUDIT RECOMMENDATION #6

We recommend the Board of Regents authorize compensation rates only as allowed by State law.

RESPONSE: Concur

We will advise the campuses to conform to the statute until it can be amended by the legislature.

Sincerely,

John H. Noble, Jr.
Deputy Commissioner for
Management and Fiscal Affairs

JHN/llt

